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Stevens

21 DEC 1984

NOTE FOR D/Pers
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Bob,

You asked whether we could determine what the rationale was for the 2% accrual rate for CIARDS employees whether they are serving overseas or domestically. We have not found anything in Office of Personnel's records that show exactly why the 2% was selected except that we used the 2% just like the Foreign Service. When we were meeting with Bill Bacus at State Department, I asked him whether he had any background on the 2% figure. He claims that when using age 60 as a mandatory retirement age and considering that the maximum percent permitted by the Foreign Service law is 70%, or 35 years of service, it takes a 2% contribution to get there. This may not be very scientific, but it is the best information we have been able to obtain. If we can find any more, I will let you know.

I have also attached a quick analysis that has been done by [redacted] on the proposed Stevens Supplemental Retirement Plan. Although it may be lengthier than you need, the general comments ssction on page one is a summary of the proposal.There are three aspects that strike us: (1) the special retirement system (which would include CIARDS) would change the retirement age from 50 with 20 years service to age 55 with 25 years service; (2) the computation rate of .85% times the high five years is a significantly less benefit than the present systems; and (3) the 401 K plan looks richer than we originally thought it would be. The last item would tend to benefit our higher graded employees and thus could be a major concern for lower graded employees. We will do some further analysis and try to obtain more specifics on the Stevens Proposal. STAT

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Review of the OLL Extract of Sen. Stevens Retirement Plan Proposal

General Comments

The extract of the Stevens Retirement Plan doesn't contain any "surprises" as regards the overall aspects of the Plan and is consistent with expectations developed from the early public hearings, discussion with the senate staffers and input from Andy Ruddock and Ed Hustead as to what to expect.

As expected, the plan provides a three tier benefit system (Social Security, a defined benefit plan and a capital accumulation plan - a 401k type plan).

The plan's full benefit accrual comes into effect at age 62 with 2% reduction per year for early retirement (55 with 30 years permitted) or involuntary retirement at any age with 25 years of service or 50 with 20 for regular civil service types. Special civil service categories such as law enforcement, fire fighters and air traffic controllers would be able to retire at 55 years with 25 years of service (now 50 with 20) with no penalty reduction under age 62.

Special categories retiring at 55 w/25 years would get a "supplemental" to the basic plan earned annuity through offset of some percentage of Social Security benefits at age 62 so as to provide a level annuity from retirement to age 62 and thereafter with combined basic annuity/social security benefits.

It was anticipated that the accrual rate for the defined benefit plan would be earlier than the current CSRS system but Stevens has come up with an extremely low proposed accrued rate of .85 percent (as compared to the current average 1.85 percent CSRS rate) which would produce less than half the replacement income provided under current formulas.

This same formula appears to be also applicable to the special category groups such as low enforcement, fire fighters, etc. which will severely reduce the now "preferred benefit" status for these groups.

Early retirement, even without a penalty, will be a theoretical option unless the individual puts a lot of money into the 401k from the onset and the return is excellent at the time of retirement. This of course cannot be predicted should the economy be depressed for periods before retirement.

The design of Stevens Plan, the penalties, and the accrual formula are aimed at encouraging employees not to retire before age 62 or later.

Specific Comments on Basic Provisions

1. Participation

The proposed plan focuses on a supplemental system for social security covered employees but offers an option to pre-1984 employees under the CSRS to elect transition to the new system under two options.

The extract unfortunately isn't fully clear but both options would appear to require going under social Security coverages.

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Employees hired on or after 1 January 1984 covered by the current interim system will be transmitted into the new plan upon enactment with their 1.3% contributions being matched by the government at $2 for $1 and put in the 401k cap. accumulation plan.

One of the transition options for current CSRS system participants would transfer employee/government contributions plus an interest bonus to a 401k account for the transferee. Both of these provisions would make participation in the capital accumulation involuntary for interim people as well as transfers from the old CSRS under option one.

On the basis of the limited information available in the extract, few voluntary transfers could be expected from the current CSRS system.

2. Basic Plan

Provides a new and extremely low computation formula for regular CSRS and special civil service categories (law enforcement, etc.) hired on or after 1 January 1984. Comments on this have been made in the "General Comments" above. The extremely low return from the defined benefit plan of the Plan puts the primary source of annuity from the Plan on a defined contribution basis (e.g. the 401k plan) and the risk on the employee rather than the employer.

3. 401k Plan

No indication whether the 401k would be offered as a voluntary or involuntary element of the plan. As previously noted, regarding interim employees and transfers from the "old" CSRS system, participation by these categories would appear to be involuntary.

Participation level of contributions of up to 16% of basic pay are higher than previously indicated. Same for the government contribution of up to 8% of pay. Level of contribution can be expected to be contested as being too costly to the government but concept will be considered and argued at great length.

4. Annuity

The low return basic defined benefits annuity of the plan will be non-contributionary by employees with the government paying for an annuity with about half the level produced under the present CSRS system.

Annual increase of annuity would be based on 75% of the change in the CPI.

5. Deferred Retirement

Provides that employee leaving service before eligible for an immediate annuity from basic defined benefit plan and who has participated for 5 or more years in the 401k may opt to leave

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account in the fund or rollover into an IRA or a subsequent employer's fund if eligible. This will increase the portability factor out of government to the private sector.

6. Funding

Funds for supplemental retirement plan will be the same as the current CSRS fund. Combining the fund is considered in some quarters as necessary to keep the old CSRS system viable--some experts disagree because of current financing laws.

7. Investments - 401k

Proposal resembles Stevens' earlier bill in 1982 which would--after 2nd year--permit investment of 401k assets into the private sector by a Board of Trustees. This will be argued as risky because of volume of investment capital of government will be very large and could skew the market and impact on the economy.

8. Transition Provisions

Outlines two options available to current employees in CSRS to transfer into the new system. As previously mentioned, the 1st option would require individual and government contributions to old CSRS be transferred to a 401k account for the employee.
Credit for service under old CSRS would vary under the two options. Fuller explanation of both options are needed to clarify.

9. Board of Trustees

Oversight over the 401k plan and after 2nd year will make investment decisions. This board will be an off-budget Agency appointed by the President and confirmed by the Senate.

10. Employees Covered by CSRS Prior to 1 January 1984

Not too clear but apparently requires transfers from old CSRS to supplemental plan to be covered by social security (OASDI).

Confusing wording since it indicates continued contribution to CSRS fund and entitlement to full CSRS benefit until recurring social security benefit. Needs clarification for meaningful comment.

11. Disability

Eligible for Social Security
Supplemental plan handles benefit up to age 62 and after with offset of social security benefit if individual is eligible for social security disability benefits. Eligibles for social security requires incapability to work.

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Ineligible for Social Security

Not spelled out but assume that individual meets standards of the retirement plan for disability. Reduced benefits indicated but formulas must be compared with current provisions of CSRS. Same for "Eligible for Social Security" above. Also, disability applicants will face placement effort within 2 grades of current position to test ability to perform.

12. Survivor Annuity Plan

Both pre-retirement death cases and post-retirement cases will have new computation formulas which are expected to produce much lower benefits than current provisions. Comparison studies are needed to determine differences.

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